

# **PUBLIC DISCLOSURE**

July 13, 2020

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

North Dallas Bank & Trust Co.  
Certificate Number: 18355

12900 Preston Road  
Dallas, Texas 75230

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Dallas Regional Office

1601 Bryan Street, Suite 1410  
Dallas, Texas 75201

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## INSTITUTION RATING

**INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING:** This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The following table presents the performance level of North Dallas Bank & Trust Co. regarding the Lending, Investment, and Services Tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory		X	X
Low Satisfactory	X		
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

**The Lending Test is rated Low Satisfactory.**

- Lending levels reflect good responsiveness to assessment area credit needs.
- An adequate percentage of loans are made in the institution's assessment area.
- The geographic distribution of loans reflects adequate penetration throughout the assessment area.
- The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among retail customers of different income levels and business customers of different size.
- The institution uses innovative and/or flexible lending practices in order to serve assessment area credit needs.
- The institution is a leader in making community development loans. The institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.

**The Investment Test is rated High Satisfactory.**

- The bank has a significant level of qualified community development investments and grants, occasionally in a leadership position, particularly those that are not routinely provided by private investors.
- The institution exhibits good responsiveness to credit and community economic development needs.
- The institution makes significant use of innovative and/or complex investments to support community development initiatives.

**The Service Test is rated High Satisfactory.**

- Delivery systems are reasonably accessible to essentially all portions of the institution's assessment area.
- The opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.
- Services, including business hours, do not vary in a way that inconvenience portions of the assessment area, particularly low- and moderate-income geographies and/or individuals.
- The bank is a leader in providing community development services.

## DESCRIPTION OF INSTITUTION

North Dallas Bank & Trust Co. (NDBT), established in 1961, operates as one of the area's largest, privately held independent banks. NDBT does not have a holding company affiliation, bank subsidiary, or any other bank affiliate relationship. The Federal Deposit Insurance Corporation assigned NDBT a "Satisfactory" CRA rating at the November 6, 2017, evaluation using CRA Large Bank Examination Procedures. The bank continues to maintain a business focus on commercial and residential real estate lending.

### **Operations**

In addition to the main office in Dallas, Texas, the bank operates four full-service branches in the surrounding suburbs of Frisco, Irving, Plano, and Addison. The following table illustrates the location of the five full-service offices. In addition, the bank maintains an automated teller machine (ATM) at each of the office locations and also operates a mobile branch out of the main office. The bank offers banking hours consistent with the area and industry, with extend hours offered at the drive-thru locations. NDBT did not experience any merger or acquisition activity since the previous evaluation nor did the bank experience any branch openings or closures.

Branch Locations				
Location	City	Office Type	Census Tract Income Level	Branch Opened or Closed Since Last Evaluation
12900 Preston Road	Dallas	Main Office	Upper	No
5150 Keller Springs Road	Dallas	Branch	Middle	No
7359 Preston Road	Frisco	Branch	Middle	No
7660 North Macarthur Boulevard	Irving	Branch	Upper	No
3900 Preston Road	Plano	Branch	Upper	No
Source: Bank Records				

NDBT offers a full line of deposit products to businesses and consumers, including mobile deposits, text banking, e-statements, and telephone banking. In addition, the bank offers a wide array of loan products to consumers and businesses.

### **Ability and Capacity**

As of the March 31, 2020, Report of Income and Condition, the institution reported total assets of nearly \$1.3 billion, which included gross loans of \$641.4 million and securities totaling \$486.9 million. The following table provides the complete asset mix.

<b>Asset Distribution</b>		
<b>Asset Category</b>	<b>\$(000s)</b>	<b>%</b>
Cash	147,603	11.5
Securities	486,914	37.9
Federal Funds Sold	0	0.0
Net Loans & Leases	628,802	48.9
Premises & Fixed Assets	11,733	0.9
Other Assets	10,220	0.8
<b>Total Assets</b>	<b>1,285,272</b>	<b>100.0</b>
<i>Source: Report of Income and Condition (3/31/2020).</i>		

As reflected in the following table, the mix of outstanding loans as of March 31, 2020, demonstrates a similar distribution to the reported data totals noted under the ‘Scope of Evaluation’ with commercial loans (Commercial Real Estate and Commercial and Industrial) representing 40.3 percent of the loan portfolio by dollar volume and residential loans (1-4 Family Residential and Multi-Family Residential) representing 39.1 percent.

<b>Loan Portfolio Distribution</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction and Land Development	95,312	14.9
Secured by Farmland	1,596	0.2
1-4 Family Residential	247,184	38.5
Multi-family (5 or more) Residential	3,542	0.6
Commercial Real Estate	215,305	33.6
<b>Total Real Estate Loans</b>	<b>562,939</b>	<b>87.8</b>
Commercial and Industrial	42,968	6.7
Agricultural	11	<0.1
Consumer	7,026	1.1
Other Loans and Leases	28,486	4.4
<b>Total Loans</b>	<b>641,430</b>	<b>100.0</b>
<i>Source: Report of Income and Condition (3/31/2020)</i>		

For the 10 quarters since the previous evaluation, the bank recorded an average, net loan-to-deposit ratio of 54.3 percent. The significant competition in the assessment area for loans contributed to the lower loan-to-deposit ratio; however, the bank maintains sufficient capacity to meet any future assessment area credit needs.

Based on the information discussed in this section as well as other regulatory data, the institution’s financial condition, size, product offerings, and legal impediments’ status did not affect the bank’s ability to meet the assessment area’s credit needs.

## DESCRIPTION OF ASSESSMENT AREA

CRA requires each financial institution to define one or more assessment areas within which examiners will evaluate its performance. NDBT delineated portions of the Dallas-Plano-Irving Metropolitan Division (Dallas MD AA) as their assessment area. The bank reasonably defined its assessment area to meet CRA requirements. The following sections discuss demographic and economic information for the assessment area.

### **Economic and Demographic Data**

The Dallas MD AA contains 346 census tracts in portions of Collin, Dallas, and Denton Counties. These counties comprise three of the seven counties in the Dallas MD. According to the 2015 American Community Survey (ACS) Census Data, the assessment area contained 33 low-income, 57 moderate-income, 75 middle-income, 178 upper-income, and 3 census tracts with no income designation. Since the prior evaluation, the assessment area remained stable. As noted previously, the bank maintains five full-service locations in this assessment area.

The following table contains additional demographic information for the Dallas MD AA.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	346	9.5	16.5	21.7	51.4	0.9
Population by Geography	1,550,590	10.0	16.3	22.2	51.2	0.3
Housing Units by Geography	637,360	10.8	15.7	23.4	49.7	0.4
Owner-Occupied Units by Geography	302,575	1.9	9.2	19.5	69.3	0.1
Occupied Rental Units by Geography	289,510	18.7	21.9	27.6	31.2	0.7
Vacant Units by Geography	45,275	20.5	19.5	22.3	37.1	0.6
Businesses by Geography	229,182	6.1	13.4	21.4	57.9	1.2
Farms by Geography	3,006	5.2	12.5	19.2	61.7	1.3
Family Distribution by Income Level	383,363	19.2	13.8	15.4	51.5	0.0
Household Distribution by Income Level	592,085	20.3	15.4	16.5	47.8	0.0
Median Family Income MSA - 19124 Dallas-Plano-Irving, TX		\$71,149	Median Housing Value			\$246,367
			Median Gross Rent			\$1,028
			Families Below Poverty Level			8.7%
Source: 2015 ACS Census and 2019 D&B Data Due to rounding, totals may not equal 100.0 (* ) The NA category consists of geographies that have not been assigned an income classification.						

The Federal Financial Institutions Examination Council (FFIEC) reported 2018 and 2019 median family incomes for the Dallas MD of \$77,200 and \$83,100, respectively. The following table denotes the income ranges for the low-, moderate-, middle- and upper-income designations.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Dallas-Plano-Irving, TX MD Median Family Income (19124)				
2018 (\$77,200)	<\$38,600	\$38,600 to <\$61,760	\$61,760 to <\$92,640	≥\$92,640
2019 (\$83,100)	<\$41,550	\$41,550 to <\$66,480	\$66,480 to <\$99,720	≥\$99,720
Source FFIEC				

Professional and business services provide the largest employment opportunities in the area at 19.2 percent, followed by education and health services at 12.0 percent, and government at 11.4 percent. Major employers in the area with over 15,000 employees each include Wal-Mart Stores Inc., AT&T, and Baylor Scott & White Health.

For 2018 and 2019, the Bureau of Labor Statistics (BLS) reported unemployment rates in Collin County of 3.3 and 3.1 percent, rates in Dallas County of 3.8 and 3.5 percent, and rates in Denton County of 3.2 and 3.0 percent, respectively. Comparatively, the BLS reported Texas unemployment rates of 3.8 percent for 2018 and 3.5 percent for 2019 and US unemployment rates of 3.9 percent in 2018 and 3.6 percent for 2019.

### **Competition**

The bank faces significant competition from a multitude of regional and national banks, mortgage companies, and credit unions within the Dallas MD AA. According to the June 30, 2019, FDIC Summary of Deposits, 130 insured financial institutions operate 1,001 branches within the 3 counties containing the assessment area. Overall, the bank ranks 19<sup>th</sup> in deposit market share with 0.5 percent of the market share. Additionally, peer mortgage data for 2018 shows that 870 mortgage lenders reported processing applications in the Dallas MD AA. Further, CRA peer data indicates that 231 financial institutions reported small business loans in the counties that contain the designated assessment area. However, CRA peer data does not include, credit unions, banks with assets below \$1.2 billion, or non-bank financial companies. This significant level of competition serves to decrease lending opportunities, especially as the distance from branches increases.

### **Community Contact**

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to identified needs. It also shows what credit and community development opportunities are available.

Examiners used an existing contact with an economic development organization operating the Dallas MD AA. The contact noted that prior to the COVID-19 Pandemic, the economy was doing well, with many businesses moving in, existing businesses expanding, and construction or redevelopment of retail spaces occurring. The contact identified the primary credit need as



financing for startup businesses, although the need for all commercial lending opportunities increased. The contact further noted that local institutions have a good reputation of meeting the communities' credit needs.

### **Credit and Community Development Needs and Opportunities**

Considering information from the community contact, bank management, and demographic data, examiners determined the primary credit needs of the assessment area include small business and home mortgage lending. In addition, the community development needs of the area include affordable housing and economic development.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated November 6, 2017, to the current evaluation dated July 13, 2020. Examiners used Interagency Large Bank Examination Procedures to evaluate NDBT's CRA performance. These procedures include the Lending Test, Investment Test, and Service Test. See the Appendices for a description of each test.

Examiners performed a full scope review of the bank's activity within its sole assessment area, the Dallas MD AA.

### **Activities Reviewed**

For the Lending Test, examiners analyzed performance in the designated assessment area using the bank's reported CRA and home mortgage data for 2018 and 2019, the last two full calendar years since the previous evaluation.

Examiners considered the volumes of lending found in reported data and the Report of Income and Condition in determining the appropriate presentation and weighting of products. Consequently, this evaluation only contains detailed discussions regarding small business lending and home mortgage lending when arriving at conclusions for applicable Lending Test performance factors. The bank did not originate any small farm loans during the review period; therefore, this product was not reviewed or analyzed during this evaluation. In addition, the bank did not collect and report consumer loan data as this product does not represent a major product line for the bank by dollar volume at only 2.1 percent of 2019 originations and purchases. The information below represents the universe of loans for the products reviewed and analyzed to reach conclusion.

#### **Home Mortgage Loans:**

2018: 143 loans totaling \$62,149,000

2019: 124 loans totaling \$72,368,000

#### Small Business Loans:

2018: 188 loans totaling \$30,306,000

2019: 183 loans totaling \$23,337,000

#### Community Development Loans

November 6, 2017 – July 13, 2020: 40 loans totaling \$65,848,000

Examiners provided equal weighting to the loan products reviewed given the higher dollar volume of mortgage loans reported and the higher number volume of small business loans reported. Additionally, the products represented similar percentages of the bank's total loan portfolio as noted in the description of institution.

Examiners compared the bank's home mortgage performance to 2018 peer mortgage data and 2015 ACS Census data when arriving at applicable conclusions. For small business lending, examiners compared the bank's performance to 2018 CRA aggregate data and D&B data for 2018 and 2019 to arrive at conclusions. Performance in 2018 received greater weight due to the availability of aggregate data for comparison, with 2019 performance used for trend purposes.

#### ***Investment and Service Tests***

The scopes for the Investment and Service Tests consider applicable community development (CD) activities, including qualified investments, donations or grants, and CD services, generated since the last evaluation. The Investment Test's scope further includes all prior period qualified investments. Prior period qualified investments involve those purchased prior to the previous evaluation, but still outstanding as of this evaluation's date. For these investments, examiners use the book value as of the current evaluation date.

## **CONCLUSIONS ON PERFORMANCE CRITERIA**

### **LENDING TEST**

NDBT demonstrated a low satisfactory record regarding the Lending Test. Adequate records regarding the bank's borrower profile and geographic loan distributions primarily support this conclusion. The bank further exhibited a good record regarding its lending activities for small business and home mortgage loans and originated an adequate percentage of its loans within its designated assessment areas. In addition, the bank proved a leader in granting community development loans while demonstrated good responsiveness to the community credit needs. Finally, the bank displayed use of innovative and complex lending practices.

#### **Lending Activity**

Lending levels reflect good responsiveness to assessment area credit needs. Good performances regarding home mortgage and small business lending support this conclusion. Examiners considered the bank's size, business strategy, and capacity relative to the assessment area's credit needs when arriving at this conclusion.

### ***Home Mortgage Loans***

The level of home mortgage lending activity reflects a good record for the bank as a whole. A good overall market ranking and share support this conclusion. For 2018, the bank reported 81 home mortgage loans totaling \$37.9 million inside the Dallas MD AA. Therefore, the bank captured a 0.2 percent market share for the total number of home mortgage loans and a 0.2 percent market share for the total dollar volume of loans. This volume of activity ranks the bank 116<sup>th</sup> out of 726 total home mortgage lenders and lands the bank in the top twenty percent of lenders reporting such loans in the bank's assessment area. These levels reflect a good record of responsiveness regarding home mortgage loans.

### ***Small Business Loans***

The level of small business lending activity reflects a good record for the bank as a whole. A good overall market ranking and share support this conclusion. For 2018, the bank reported 188 small business loans totaling \$30.3 million, including 174 in Dallas, Collin, and Denton Counties. Based on these levels, NDBT captured approximately 0.2 percent market share for the total number of small business loans and approximately 0.7 percent market share for the total dollar volume of loans. This volume of activity ranks the bank 41<sup>st</sup> out of 231 total lenders and lands the bank in the top twenty percent of lenders reporting small business loans in the bank's assessment area. These levels reflect a good record of responsiveness regarding small business loans.

### **Assessment Area Concentration**

An adequate percentage of loans are made in the institution's assessment area. An adequate percentage of home mortgage and small business loans originated in the assessment area supports this conclusion. Examiners considered the bank's asset size and office structure as well as the loan products reviewed relative to the assessment area's size and economy when arriving at this conclusion.

In both 2018 and 2019, the bank originated an adequate percentage of the reviewed loans by number and dollar volume in the assessment area. The following table presents the concentrations of loans originated in the Dallas MD AA by year and product.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2018	81	56.6	62	43.4	143	37,840	60.9	24,309	39.1	62,149
2019	68	54.8	56	45.2	124	52,969	73.2	19,399	26.8	72,368
Subtotal	149	55.8	118	44.2	267	90,809	67.5	43,708	32.5	134,517
Small Business										
2018	132	70.2	56	29.8	188	19,868	65.6	10,438	34.4	30,306
2019	138	75.4	45	24.6	183	16,256	69.7	7,081	30.3	23,337
Subtotal	270	72.8	101	27.2	371	36,124	67.3	17,519	32.7	53,643
Total	419	65.7	219	34.3	638	126,933	67.5	61,227	32.5	188,160
Source: Evaluation Period: 1/1/2018 - 12/31/2019 Bank Data Due to rounding, totals may not equal 100.0										

### **Geographic Distribution**

The geographic distribution of loans reflects adequate penetration throughout the Dallas MD AA. An adequate record regarding small business lending combined with an adequate record regarding home mortgage lending, supports this conclusion. This factor only considered loans granted inside the bank's assessment area. Examiners primarily compared the bank's performance to readily available information, which included 2018 aggregate performance.

#### ***Home Mortgage Loans***

The bank demonstrated adequate performance regarding the geographic distribution of its home mortgage loans. Adequate performance in low-income tracts coupled with adequate performance in moderate-income tracts supports this conclusion. Examiners primarily compared the bank's performance to aggregate data when arriving at this conclusion. The table below represents the bank's performance as well as comparative data for 2018 and 2019.

In low-income tracts within the Dallas MD AA, the bank's 2018 performance landed 2.5 percentage points above the aggregate figure, demonstrative of adequate performance. However, the lack of lending in low-income tracts in 2019, indicative of poor performance, serves to hamper the 2018 performance. Given the greater weight placed on 2018 performance, the bank demonstrated adequate performance overall in low-income tracts.

In the moderate-income tracts, the bank's 2018 performance slightly exceeds aggregate by 1.1 percentage points, indicative of adequate performance. In 2019, NDBT's performance decreased, but continues to reflect adequate performance.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	1.9	2.4	4	4.9	1,020	2.7
2019	1.9	--	0	0.0	0	0.0
Moderate						
2018	9.2	6.3	6	7.4	1,174	3.1
2019	9.2	--	4	5.9	1,420	2.7
Middle						
2018	19.5	16.7	8	9.9	1,066	2.8
2019	19.5	--	5	7.4	1,606	3.0
Upper						
2018	69.3	74.5	63	77.8	34,580	91.4
2019	69.3	--	59	86.8	49,943	94.3
Not Available						
2018	0.1	0.1	0	0.0	0	0.0
2019	0.1	--	0	0.0	0	0.0
Totals						
2018	100.0	100.0	81	100.0	37,840	100.0
2019	100.0	--	68	100.0	52,969	100.0
Source: 2015 ACS Census; 1/1/2018 - 12/31/2019 Bank Data, 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0						

Despite the decreasing trend in low- and moderate income tracts, the overall performance remains adequate. The bank no longer participates in the City of Dallas' Homebuyer Assistance Program, which contributed to the decreased performance in the low- and moderate-income tracts.

### ***Small Business Loans***

The bank achieved an adequate record regarding its geographic distribution of small business loans. Good performance in low-income census tracts hampered by adequate performance in moderate-income census tracts supports this conclusion.

For 2018, the bank's performance in low-income tracts mirrored that of aggregate data, supporting adequate performance. However, in 2019, the bank's performance nearly tripled in low-income tracts. The significant increase demonstrated excellent performance. Within the Dallas MD AA, the bank ranked 41<sup>st</sup> of 231 CRA reporters with a 0.2 percent market share by number. The bank's performance in 2019 relative to the level of competition and their overall market share further supports excellent performance. Consequently, given the greater weighting on 2018 data, the bank's performance in low-income tracts indicates good performance.

In moderate-income tracts, NDBT's record of lending in 2018 exceeded aggregate performance by 0.4 percentage points, indicative of adequate performance. While lending in 2019 fell slightly, it is still reflective of adequate performance.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	6.2	6.7	9	6.8	387	1.9
2019	6.1	--	31	22.5	3,510	21.6
Moderate						
2018	13.9	15.5	21	15.9	2,164	10.9
2019	13.4	--	20	14.5	1,261	7.8
Middle						
2018	21.4	19.8	17	12.9	2,767	13.9
2019	21.4	--	14	10.1	2,779	17.1
Upper						
2018	57.3	56.6	82	62.1	14,340	72.2
2019	57.9	--	65	47.1	8,005	49.2
Not Available						
2018	1.2	1.5	3	2.3	210	1.1
2019	1.2	--	8	5.8	701	4.3
<b>Totals</b>						
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>132</b>	<b>100.0</b>	<b>19,868</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>--</b>	<b>138</b>	<b>100.0</b>	<b>16,256</b>	<b>100.0</b>
Source: 2018 & 2019 D&B Data; 1/1/2018 - 12/31/2019 Bank Data; 2018 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0						

## **Borrower Profile**

The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among retail customers of different income levels and business customers of different sizes. Adequate records regarding home mortgage and small business lending support this conclusion. Examiners considered the loan product types relative to the available comparative data and any performance context issues when arriving at this conclusion. This factor only considered loans granted inside the bank's assessment area.

### ***Home Mortgage Loans***

NDBT demonstrated adequate performance regarding lending to borrowers of varying incomes. Examiners reviewed the level of lending to low- and moderate-income borrowers based on the

median family income of the Dallas MD, as stratified in the Description of Assessment Area. They also compared the bank's performance to aggregate data when arriving at conclusions.

The bank demonstrated adequate performance in lending to low-income borrowers in 2018 and 2019. Although in 2018, the bank did not make any loans to borrowers in this income category, they remained within a comparable range of aggregate data; falling just 2.0 percentage points below. The aggregate figure demonstrates the limited demand for this product among low-income borrowers.

For moderate-income borrowers, the bank's performance exceeded aggregate in 2018 by 2.1 percentage points, indicative of adequate performance; however, the bank experienced a sharp decline of lending to borrowers in this income category in 2019.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2018	19.2	2.0	0	0.0	0	0.0
2019	19.2	--	0	0.0	0	0.0
Moderate						
2018	13.8	7.8	8	9.9	1,774	4.7
2019	13.8	--	2	2.9	148	0.3
Middle						
2018	15.4	15.5	7	8.6	1,013	2.7
2019	15.4	--	4	5.9	710	1.3
Upper						
2018	51.5	60.5	45	55.6	23,089	61.0
2019	51.5	--	50	73.5	35,769	67.5
Not Available						
2018	0.0	14.2	21	25.9	11,964	31.6
2019	0.0	--	12	17.6	16,342	30.9
Totals						
2018	100.0	100.0	81	100.0	37,840	100.0
2019	100.0	--	68	100.0	52,969	100.0
Source: 2015 ACS Census; 1/1/2018 - 12/31/2019 Bank Data, 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0						

Examiners placed more weight on the bank's performance with moderate-income borrowers than with low-income borrowers, supporting the overall rating. The difference in weighting comes from low-income borrowers increased inability to qualify for the long-term financing generally involved

in mortgage lending, as evidenced by the drastic difference between demographics and aggregate performance for 2018.

### ***Small Business Loans***

NDBT demonstrated adequate performance regarding lending to businesses of varying incomes. An adequate record of lending to business with gross annual revenues of \$1 million or less supports this conclusion. The companies' gross annual revenues define the borrowers' profiles for this analysis. Examiners primarily compared the bank's performance to aggregate performance when arriving at conclusions.

As noted in the table below, the bank's level of lending to businesses reporting gross annual revenues of \$1 million or less exceeded aggregate performance in 2018, by 5.0 percentage points, demonstrating adequate performance. Additionally, in 2019, the bank's performance declined slightly but remained within range of the previous year's performance also demonstrating adequate performance.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>						
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>						
2018	84.2	42.0	62	47.0	9,341	47.0
2019	86.3	--	50	36.2	5,001	30.8
<b>&gt;1,000,000</b>						
2018	6.5	--	70	53.0	10,527	53.0
2019	5.4	--	88	63.8	11,255	69.2
<b>Revenue Not Available</b>						
2018	9.3	--	0	0.0	0	0.0
2019	8.3	--	0	0.0	0	0.0
<b>Totals</b>						
<b>2018</b>	<b>100.0</b>	<b>100.0</b>	<b>132</b>	<b>100.0</b>	<b>19,868</b>	<b>100.0</b>
<b>2019</b>	<b>100.0</b>	<b>--</b>	<b>138</b>	<b>100.0</b>	<b>16,256</b>	<b>100.0</b>
<i>Source: 2018 &amp; 2019 D&amp;B Data; 1/1/2018 - 12/31/2019 Bank Data; 2018 CRA Aggregate Data; "--" data not available.            Due to rounding, totals may not equal 100.0</i>						

### **Innovative or Flexible Lending Practices**

NDBT uses innovative and/or flexible lending practices in order to serve assessment area credit needs. The following highlight some of the bank's innovative and flexible lending practices.

- ***HomeStart Program:*** The bank maintained their HomeStart Program, which is designed to meet the needs of the low- and moderate-income borrowers in their assessment area, since the last evaluation. The program provides flexibility in the underwriting criteria, including



allowing for higher loan-to-value ratios and alternate credit references. The program's parameters set an annually adjusted maximum income, which falls at the top of the moderate-income range, and a maximum home value. Additionally, in 2018, the bank began offering refinances to original HomeStart customers to switch from an adjustable rate to a fixed rate, as their first rate change was about to occur. Currently, the bank maintains a portfolio of 47 loans from this program valued at over \$2.0 million. Lastly, loan officers provide counseling as part of the program which provides information such as payment changes due to escrow or paying off the loan faster with additional principal payments.

- ***COVID 19 Relief:*** The bank offered Paycheck Protection (PPP) loans, provided by the Small Business Administration, to both customers and non-customers. Aside from those discussed within the community development loans category, the bank originated 677 of these loans, valued at \$67.0 million, between April and July 2020; whereas the bank only originated 322 commercial and commercial real estate loans total in 2019. Additionally, they offered modifications, such as payment deferrals, on current loans in response to the COVID 19 Pandemic. In all, the bank modified 109 loans for 85 borrowers valued at \$110.9 million.

### **Community Development Loans**

NDBT is a leader in providing community development loans. Additionally, the institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices. Excellent dollar volume combined with good responsiveness to credit and community development needs supports this conclusion. Examiners considered the dollar volume relative to the bank's capacity and credit needs within the Dallas MD AA.

Since the prior evaluation, the bank originated 40 community development loans for a total of \$65.8 million. This dollar volume equates to 5.0 percent of average total assets and 10.5 percent of average net loans, which represents an increase in the dollar volume and both percentages since the last evaluation. Relative to the institution's capacity and available opportunities, this performance reflects levels of a leader.

The following table details the community development lending activities by year and purpose.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2017	1	147	0	0	0	0	0	0	1	147
2018	5	941	3	719	0	0	3	5,211	11	6,871
2019	6	1,874	2	1,707	2	15,900	5	3,498	15	22,979
YTD 2020	2	420	1	4,000	9	30,931	1	500	13	35,851
<b>Total</b>	<b>14</b>	<b>3,382</b>	<b>6</b>	<b>6,426</b>	<b>11</b>	<b>46,831</b>	<b>9</b>	<b>9,209</b>	<b>40</b>	<b>65,848</b>
<i>Source: Bank Records</i>										

By area, the bank made the following levels of community development lending:

- Dallas MD AA – 18 loans totaling \$43,168,000
- Regional/Statewide Area – 22 loans totaling \$22,680,000, though 13 loans benefitted the Dallas/Fort Worth Metropolitan Statistical Area.

Notable examples of the NDBT's community development lending include:

- **Affordable Housing:** In 2019, the bank originated two loans totaling over \$800,000 where proceeds were used to prepare lots and construct a community center in a low-income housing development in Collin County, Texas.
- **Economic Development:** In 2020, the bank originated seven PPP loans, totaling \$13.3 million, to businesses in the Dallas MD AA which primarily employ low- and moderate-income individuals.
- **Revitalize and Stabilize:** In 2018 and 2019, the bank originated three loans totaling \$6.6 million for commercial properties in low- and moderate-income census tracts within the Dallas MD AA. All three businesses occupying these properties primarily employ low- and moderate-income individuals.

## INVESTMENT TEST

NDBT displayed a high satisfactory record regarding the Investment Test. The significant level of qualified investments and donations in coordination with good responsiveness to the credit and community development needs of the assessment area and significant use of community development initiatives supports this conclusion. Examiners considered the number and dollar volume relative to the institution's capacity and the assessment areas' needs when arriving at this conclusion.

### Investment and Grant Activity

The institution has a significant level of qualified community development investments and grants, occasionally in a leadership position, particularly those that are not routinely provided by private investors. The following table presents the bank's 176 qualified investments, grants, and donations, which totaled \$16.4 million. This represents 1.2 percent of the bank's average total assets (\$1.3

billion since the prior evaluation) and 3.1 percent of the banks average total securities (\$497.0 million since the prior evaluation). These levels show a stable trend over the levels noted at the previous evaluation. In addition, qualified donations totaled approximately \$166 thousand, of which \$135 thousand directly benefitted the bank's assessment area.

Community Development Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	2	1,689	2	572	4	665	1	628	9	3,554
2017	1	4,812	0	0	5	1,247	0	0	6	6,059
2018	0	0	0	0	7	1,744	4	1,155	11	2,899
2019	0	0	0	0	10	2,498	0	0	10	2,498
YTD 2020	0	0	0	0	5	1,250	0	0	5	1,250
<b>Subtotal</b>	<b>3</b>	<b>6,501</b>	<b>2</b>	<b>572</b>	<b>31</b>	<b>7,404</b>	<b>5</b>	<b>1,783</b>	<b>41</b>	<b>16,260</b>
Qualified Grants & Donations	0	0	135	166	0	0	0	0	135	166
<b>Total</b>	<b>3</b>	<b>6,501</b>	<b>137</b>	<b>738</b>	<b>31</b>	<b>7,404</b>	<b>5</b>	<b>1,783</b>	<b>176</b>	<b>16,426</b>
<i>Source: Bank Data</i>										

By specific assessment area, the bank made use of the following levels of qualified investments:

- Dallas MD AA: 136 qualified investments totaling \$385 thousand
- Regional/Statewide Area: 40 qualified investments totaling \$16.0 million

The following are notable examples of the bank's community development investments:

- **Affordable Housing:** In 2017, the bank invested in Fannie Mae Mortgage-Backed Securities totaling \$4.8 million that provides affordable housing for low- and moderate-income individuals throughout the State of Texas.
- **Community Service:** During the review period, the bank provided 135 donations and grants to various community service organizations totaling \$166 thousand. Some of these donations and grants include \$30 thousand to Family Compass (service to low-and-moderate income abused children), \$33 thousand to Family Gateway (homeless shelter), and \$9,600 to the Momentous Institute (powered by The Salesmanship Club of Dallas).

### **Responsiveness to Credit and Community Development Needs**

NDBT exhibited good responsiveness to credit and community economic development needs. The bank's investments and donations benefitted several organizations that provided affordable housing and/or community services to low- and moderate-income individuals and helped stabilize low- and moderate-income geographies. Affordable housing and economic development are identified community development needs in the assessment area.

## **Community Development Initiatives**

The institution makes significant use of innovative and/or complex investments to support community development initiatives. This included 22 investments totaling \$5.5 million in minority and women-owned depository institutions and low-income credit unions. NDBT also maintains five separate prior period investments in small business investment companies (SBIC). One SBIC investments helps to revitalize and stabilize low- and moderate-income geographies throughout the bank's assessment area while the other four assisted with economic development activities.

## **SERVICE TEST**

The bank demonstrated a high satisfactory record regarding the Service Test. The reasonable accessibility of retail banking services inhibited the excellent record regarding community development services to primarily support this conclusion. In further support, the bank's reasonableness of hours and services varied in a way that did not inconvenience portions of the assessment area and the bank did not open or close any branches since the prior evaluation.

## **Accessibility of Delivery Systems**

Delivery systems are reasonably accessible to all portions of the institution's assessment area. While branch distribution is accessible to limited portions of the assessment area, adequate alternative delivery systems primarily supports this conclusion.

### ***Branch Distribution***

The bank's branch distribution is accessible to limited portions of the assessment area. A poor percentage of branches in low- and moderate-income geographies primarily supports this conclusion.

The following table shows that the bank does not operate any branches in low- or moderate-income census tracts. The table further shows that 26.3 percent of the assessment area's population resides in low- and moderate-income census tracts, which comprise 26.0 percent of the area's census tracts. However, examiners determined that the bank's branch locations are in census tracts adjacent to or within close proximity to the area's moderate-income census tracts. In relation to the assessment area population and census tract percentages in the low- and moderate-income geographies, the bank shows a penetration accessible to limited portions of the assessment area.

Branch and ATM Distribution								
Census Tract Income Category	Census Tracts in Assessment Area		Total Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	33	9.5	155,338	10.0	0	0.0	0	0.0
Moderate	57	16.5	252,449	16.3	0	0.0	0	0.0
Middle	75	21.7	344,169	22.2	2	40.0	2	16.7
Upper	178	51.4	749,546	51.2	3	60.0	4	83.3
N/A	3	0.9	4,088	0.3	0	0.0	0	0.0
<b>Total</b>	<b>346</b>	<b>100.0</b>	<b>1,550,590</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>
<i>Source: 2015 ACS Census &amp; Bank Data, Due to rounding, totals may not equal 100.0</i>								

### ***Alternative Delivery Systems***

The bank provided reasonably accessible alternative delivery systems to low- and moderate-income geographies and to low- and moderate-income individuals. A reasonably accessible distribution of other alternative delivery systems outweighed the poor distribution of ATMs to support this conclusion.

As noted in the Branch and ATM Distribution table above, the bank does not operate any ATMs in low- or moderate-income census tracts, which demonstrates accessibility for limited portions of the assessment area. However, as previously stated, the bank operates ATMs in both middle- and upper-income census tracts adjacent to or within a few miles of several low- and moderate-income census tracts that serve these geographies. In addition, since the prior evaluation, the bank expanded its ATM deposit-taking capabilities in the Las Colinas, Addison, and Frisco banking centers. This service allows consumers to make deposits outside of normal business hours. The bank also belongs to the STAR and Allpoint ATM networks, which provide surcharge-free access to thousands of ATMs located in Walgreens, RaceTrac, Target, and many other store locations. Many of these ATMs are located throughout the bank's assessment area, creating access that is convenient for low- and moderate-income customers.

The bank also offers a variety of alternative systems that prove reasonably accessible in delivering retail banking services. For example, the institution provides free internet banking that allows customers to review their account balances and account activities, view and print copies of checks, transfer funds internally between accounts, transfer funds to accounts at external financial institutions, schedule recurring transfers, set up account balance and transaction email or text alerts, place online stop payments, and access online bill pay. Customers may also download information into financial software such as Quicken or QuickBooks, send and receive secure messages with the bank, access debit card alerts and card controls and spendable balance tools.

The bank's mobile banking provides many of these same services from any mobile device including viewing account balances and activity, transferring funds internally between accounts, accessing online bill pay, and making deposits with checks. Customers may also make mobile wallet payments. Further, the bank offers text banking for customers to view account balances and recent

account activity. In addition, the bank offers telephone banking that allows customers to check balance inquiries, transaction history, transfer funds, and reorder checks. Finally, customers may bank by mail by making deposit or loan payments, safe deposit box payments, and reordering checks. These delivery systems also address various needs of commercial customers, including small businesses, such as payroll cards, remote deposit capture, and treasury management services.

Despite, the lack of branch and ATM distribution in low- and moderate-income geographies, other effective forms of alternative delivery systems and the close proximity of branches and ATMs to the low- and moderate-income geographies provide reasonable accessibility for low- and moderate-income individuals.

### **Changes in Branch Locations**

The opening and closing of branches has not adversely affected the accessibility of the bank's delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.

As noted previously, the bank did not experience any branch openings or closings nor did they participate in any merger or acquisitions since the last evaluation.

### **Reasonableness of Business Hours and Services**

Bank services, including business hours, do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income geographies and/or individuals.

Accessibility to a variety of services, including low-cost checking accounts and ATM accessibility, primarily supports this conclusion.

As previously stated, the bank provided reasonable accessibility through its alternative delivery systems to all segments of its assessment area. In addition, with the onset of the COVID-19 pandemic, the bank temporarily changed their business hours and currently operates all drive-thru locations Monday through Friday from 8:00 AM to 4:30 PM and Saturdays from 8:30 AM to 12:00 PM.

The range of services covers a wide variety of products and services including consumer checking, savings, certificates of deposit, and individual retirement accounts; as well as, and several loan options. For businesses, products and services include checking and savings accounts as well as retirement plan services and treasury services.

### **Community Development Services**

NDBT is a leader in providing community development services. An excellent record regarding the availability and types of services that directly benefit the assessment area support this conclusion.

Since the prior evaluation, the bank provided 132 community development services. Considering the length of time and the average number of offices operated since the prior evaluation, the total

number of community development services equates to an average of 9.8 community development services provided by each office per year. This represents an outstanding level of community development services provided by bank employees.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2017*	0	17	0	0	17
2018	0	45	1	0	46
2019	0	60	1	0	61
YTD 2020**	0	7	1	0	8
<b>Total</b>	<b>0</b>	<b>129</b>	<b>3</b>	<b>0</b>	<b>132</b>
<i>Source: Bank Records, *since 11/6/2017, **as of 7/13/2020</i>					

By specific assessment area, the bank made use of the following levels of qualified services:

- Dallas MD AA: 91 qualified services
- Regional/Statewide Area: 41 qualified services

The following discussion includes notable examples of the bank's community development services in the assessment area.

- **Community Services:** An employee serves as a Board member for an organization that provides two home mentoring programs and a community education program for families that have elevated risk for child abuse and reside in low-income communities throughout Dallas and Collin Counties. As a Board member, the employee uses their financial expertise to help set the budget and strategic plan for the organization.
- **Economic Development:** An employee serves as Vice Chairman of the Board and as a member of a committee for an Economic Development Corporation (EDC). The EDC aims to increase business recruitment and retain existing businesses in North Dallas. As Vice Chairman of the Board, the employee uses their financial expertise to provide information on various incentives and proposals for prospective and existing businesses. As a member of the Budget and Audit Committee, the employee assists in preparing the annual budget and monthly and quarterly review of income and expenses for the EDC.
- **Community Services:** Several employees volunteer at Junior Achievement Finance Park events to teach financial literacy lessons to middle and high school students at various schools in the assessment area. The schools had a majority of students that receive free or reduced lunch, which is a proxy for low- and moderate-income families. Employees teach students about business and financial related topics.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. Therefore, this consideration did not affect the overall rating.



## **APPENDICES**

### **LARGE BANK PERFORMANCE CRITERIA**

#### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
  - i. The proportion of the bank's lending in the bank's assessment area(s);
  - ii. The dispersion of lending in the bank's assessment areas(s); and
  - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
  - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
  - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
  - iii. Small business and small farm loans by loan amount at origination; and
  - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

#### **Investment Test**

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

## **Service Test**

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

## SCOPE OF EVALUATION

<b>NORTH DALLAS BANK &amp; TRUST CO.</b>
<b>SCOPE OF EXAMINATION:</b> Reviewed bank performance under the Lending, Investment, and Service Tests.
<b>TIME PERIOD REVIEWED:</b> November 6, 2017 to July 13, 2020
<b>PRODUCTS REVIEWED:</b> HMDA Loans (Home Mortgage Loans): 2018, 2019 CRA Data (Small Business): 2018, 2019 Qualified Community Development Loans: 11/06/2017 to 07/13/2020 Qualified Community Development Investments: From Inception to 07/13/2020 Qualified Community Development Donations/Grants: 11/06/2017 to 07/13/2020 Qualified Community Development Services: 11/06/2017 to 07/13/2020

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Dallas MD	Full-scope	N/A	N/A

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Community Development:** For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions.

Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Community Development Loan:** A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
  - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

**Community Development Service:** A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Distressed Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or

- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area** (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.



**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.